

Selling Vacations And Cruises: The Online/Offline Challenge

Focus: Vacation Packagers

Overview

In an era of disappearing airline commissions, vacation packages have become an increasingly attractive, and profitable, product for travel agencies – both traditional and online. Enterprising agencies are becoming vacation packagers themselves (this is not a new phenomenon, since in the past it has been common for agencies to have their own packaging operations; such operations tended to be regional tours). American Express bought Travel Impressions in 1998, bringing it under its American Express Vacations umbrella, and AAA of Southern California owns Pleasant Holidays. Expedia, Travelocity and other online travel services are beginning to put their own packages together – giving them more control over the product and lessening their reliance on supplier commissions. Last month, Expedia acquired Classic Custom Vacations, which currently sells 100% of its product through travel agencies – over the phone.

Vacation packagers' value proposition is that they help consumers save time and money. Their ready-made products cut down on the amount of research involved in planning a trip. And vacation packagers can pass along discounts to customers earned by purchases from suppliers.

As with other travel segments, technology has upset the foundation of this 100+ year old industry. The Internet offers vacation packagers a new way to sell vacations – and consumers appear more than willing to buy their vacations online, or at least to begin that purchasing process online. But the industry has been responding slowly to change. High capital expenditures are needed to bring about vacation package connectivity to the Internet, but travel I.T. budgets have been slashed in recent months. Vacation packagers are torn: They are under increasing pressure to grow, and to market and sell their packages more cost-effectively, but they can't afford to invest in the required technology. This makes them needy and vulnerable to competitors and acquirers. Other vacation packagers are still in denial over the value the Internet can play in their transformation. Sure, it can help them grow, but by how much?

Vacation packagers' need to use the Internet increased after Sept. 11. Despite budget cuts, they must find a way to make the online channel work for them. Those that can do so will be prepared for the expected upswing in travel in the latter half of 2002.



Definitions

For the purpose of this report, vacation packagers are defined as traditional companies (often called tour operators or wholesalers) who create a single package out of multiple components – such as air, hotel, sightseeing, tours, entertainment and a variety of other activities. These packages can be for groups (several individuals can sign up for an escorted group tour) or for individuals (known as FIT or “Foreign Independent Travel”).

Vacation packaging is a large and growing market. PhoCusWright estimates that the North American market totals US\$17 billion and will grow to \$22 billion by 2004.

Vacation packagers offer convenience by creating off-the-shelf vacations that save travelers both time and money. A package eliminates the work of coordinating flight schedules, hotel check-out times, researching local attractions, and so on. This holds true for a group on an escorted tour or for a single traveler buying an individual package. At the same time, these packages offer consumers a lower price for a trip than they would get had they gone into the marketplace and purchased each of the components directly from the supplier. Vacation packagers get lower prices from their suppliers than do consumers because of the large volume of travel products that they purchase.

Knowledge of a destination and deep contacts often enable vacation packagers to add the components – the side trip to Mayan ruins, a visit to a count's palace, a burro ride to a remote village in Mexico – that can make a trip unique and memorable. This understanding makes it easier for travelers to learn some of the more intimate details of a destination. Finally, many of these vacation packagers pro-

vide service to their customers while they are on the trip itself, in an effort to insure they enjoy their vacation. *When properly done, this means a vacation package can be greater than the sum of its parts.*

Packagers unquestionably provide consumers with a value-added service. They also can customize trips, allowing consumers to mix and match components in order to create an itinerary that fits their interests. While most packages are pre-arranged, technology has furthered the sub-segment of the marketplace that is known as “dynamic packaging.” Dynamic packaging is when the components of a package – such as air and hotel – are combined to create a “package” for the traveler “on the fly.”

Some vacation packagers sell directly to the public, but most (87%) are sold through travel agencies. Vacation packagers pay agencies commissions that generally range from 10-15% or higher for sales that the agencies generate. These attractive commissions are one reason why travel agencies have been gravitating toward selling vacation packages over the past seven years – ever since airlines began cutting the commissions they pay to agencies.

Methodology

To complete this report, PhoCusWright surveyed 24 vacation packagers that have operations in North America and/or serve North American travelers. Altogether, these vacation packagers represent more than 40 brands and serve more than 9 million passengers in a given year. These packagers are listed in Table 1 along with their estimated annual passengers carried.



Table 1

Table 1 – Leading Vacation Packagers Surveyed By PhoCusWright

Vacation packager (Parent)	URL(s)	Estimated Passengers
The Mark Travel Corp.	www.marktravel.com www.adventuretoursusa.com www.aeromexicovacations.com www.blueskytours.com www.funjet.com www.lasvegastours.com www.mexseasun.com www.mgmmiragevacations.com www.mountainvacations.com www.onlinevacationmall.com www.swavacations.com www.tctours.com www.tgvacations.com www.unitedvacations.com www.usairwaysvacations.com www.vegasandmore.com	3,000,000
GOGO Worldwide Vacations	www.gogowww.com	1,500,000
MLT Vacations (Northwest Airlines)	www.worryfreevacations.com	1,300,000
Apple Vacations	www.applevacations.com	835,000
Globus & Cosmos (Group Voyagers)	www.globusandcosmos.com	500,000
The Leisure Company (America West Holdings)	www.americawestvacations.com	500,000
Pleasant Holidays (AAA of Southern California)	www.pleasantholidays.com	500,000
DER Travel Service (Rail Europe Group)	www.dertravel.com	250,000
Classic Custom Vacations (Expedia)	www.classic-custom-vacation.com	200,000
Far & Wide Travel	www.farandwide.com	180,000
General Tours	www.generaltours.com	90,000
Collette Vacations	www.collettevacations.com	80,000
Brendan	www.brendantours.com	70,000
Contiki	www.contiki.com	68,000
Mayflower Tours	www.mayflowertours.com	25,000
Maupintour (Lowestfare.com)	www.maupintour.com	20,000
Lindblad Expeditions	www.expeditions.com	13,000
Intrav (Kuoni Travel Group)	www.intrav.com	10,000
Certified Vacations	www.certifiedvacations.com www.deltavacations.com www.clikvacations.com www.coolvacations.com	NA
EuroVacations (Avanti Destinations, Rail Europe Group)	www.eurovacations.com	NA
IsramWorld (Koor Corporation)	www.isram.com	NA
Tauck World Discovery	www.tauck.com	NA
Trafalgar Tours	www.trafalgartours.com	NA

NA = not available Source: PhoCusWright Inc.



The largest of these is The Mark Travel Corporation, which serves more than 3 million passengers and has estimated annual revenues of more than \$1.5 billion. Its brands include AeroMexico Vacations, Blue Sky Tours, Funjet Vacations, Southwest Airlines Vacations, United Vacations, US Airways Vacations and Vacations by Sun Country.

Other leading vacation packagers interviewed by PhoCusWright include GOGO Worldwide Vacations, MLT, Apple Vacations and Pleasant Holidays.

Leading tour operators of note (but not interviewed for this report) include AA Vacations, American Express Vacations/Travel Impressions, ATA Leisure Group, Grand Expeditions, Insight Vacations, North American Leisure Group (Airtours PLC) and TravelBound.

To supplement our research, PhoCusWright also researched publicly available information about these companies and their industries. In addition, PhoCusWright interviewed several technology companies (including the four GDS) that provide vacation packagers with technology, content, booking and management systems.

Online Realities

The rise of the Internet, the realization by online travel sites that selling airline tickets is no way to make money and the ability to use technology to make packaging a more dynamic process have combined to make selling vacations online very popular.

This has attracted new entrants to the vacation package market and these new entrants are competing with existing vacation packagers. Vacation packagers must confront increased competition from many sides, particularly the Internet, which has ended the information monopoly once held by travel agencies. Many consumers are only vaguely aware of the existence of vacation packagers and have no understanding of their value.

Even as the Internet poses a threat to vacation packagers, it also is their best opportunity to build brand awareness. Vacation packagers can introduce themselves to new customers and grow

their business – and grow they must, for only the biggest will endure the shake-out in the travel industry.

Main Threats

Traditional vacation packagers are faced with new competitive pressures. The main threats they are facing are:

- Online giants such as Expedia moving into their space
- Suppliers adding packaging technology to their systems to enter the vacation packaging arena (this is just beginning overseas for the most part, but Disney Travel Co., which packages Disney and Universal vacations, is an example of this)
- The Internet itself, a vast marketplace that gives consumers unfettered access to a seemingly infinite selection of vacation options
- Technological limitations, such as manual procurement and expensive, semi-automated distribution, that make their business practices more expensive than vacation packagers elsewhere in the world
- Lack of identity – U.S. consumers have little understanding of vacation packaging; the stereotypical package is a whirlwind tour of Europe in a motor coach on a preset itinerary

Advantages and strategies to counter these problems:

- **Experience.** Packaging is a complex business, and vacation packagers are good at it. Technology will only improve their profits. In addition, vacation packagers have strong relationships with the myriad suppliers needed to put packages together.
- **Customers and Recognition.** Most vacation packagers are entrenched travel companies that have existing customer bases and, in some cases, brand names that have some regional and national recognition.
- **Time savings for consumers.** The Web is a huge, varied resource, but it consumes incredible amounts of time – that few Americans have to spare. Packagers can help consumers save time in planning their vacations but still give them the customized experience they seek.



- **Money savings for consumers.** An a la carte package is expensive; packagers' purchasing clout works to consumers' benefit.
- **Experience in working with intermediaries.** Vacation packagers that can build relationships with online agencies will grow their business fastest. They'll keep their existing customers and sell to new ones.

New Competition From Online Giants

Mark Travel is one of the few vacation packagers large enough to play in the same marketplace as Expedia and Travelocity. But Mark Travel has no brand recognition among consumers, since it sells its products almost exclusively via traditional travel agents and under a variety of names, including its own brands. This biggest of its own brands is Funjet Vacations; Mark also private labels for airlines and hotel companies, such as United Vacations, Southwest Vacations, Continental Airlines Vacations and others.

Mark Travel is a major online player and one of the most technologically advanced of all the traditional vacation packagers. It spun off what had originally been the Mark Travel technology department into a separate technology company, Trisept Solutions. Trisept's clients now include competitors of Mark Travel, such as GOGO Worldwide Vacations. Mark Travel also has a strong presence on the Web. It operates the Online Vacation Mall Web site, which offers its vacation products online to consumers, as well as individual Web sites for most of its brands.

Nonetheless, even Mark Travel sells most (about 75%) of its product through traditional travel agencies. While it is well positioned to sell online through its airline relationships, it is now finding that some online travel agencies are becoming direct competitors by moving into the vacation packaging space, while at the same time their direct online efforts threaten their relationship with the traditional distribution channel – the travel agent.

Expedia has been the most aggressive at expanding away from air; it launched Expedia Vacations in September 2000 and has already begun to gen-

erate a formidable amount of vacation package sales. These are sales of its own packages, which it arranges itself by leveraging its existing relationships with suppliers, and then adding its own profit margins to the newly priced package. Expedia is not releasing its figures publicly, but there are strong indications that it could well become the top seller of packages online, rivaling even those of Mark Travel.

In January, Expedia acquired Classic Custom Vacations, which sells \$300 million in vacation packages. Classic is perhaps the top upscale vacation wholesaler in the country and specializes in domestic travel, primarily Hawaii. It sells 100% of its packages through travel agents – over the telephone. Expedia's plans are to simply transform the vacation package distribution network.

Travelocity is currently working under the more traditional travel retailer model; it works with existing vacation packagers, including GOGO Worldwide Vacations, another giant, which now takes 1.5 million travelers on vacations annually. But it too, ultimately plans to do what Expedia is doing – build its own packages and leveraging its existing relationships with suppliers. It took a big step toward that goal by acquiring in March Site59, an online seller of last-minute merchant model air, hotel and car rental inventory.

Trend Toward Unbundled Travel

Vacation packagers face other challenges, including the predilection toward “unbundled” travel. Consumers view the Internet, with its rich selection of air, car and hotel offerings, as an opportunity to build their own vacation, exactly the way they want it. Some vacation packagers do offer customers the capability to custom design a vacation, but they generally do this not through their Web sites, which don't have the capability for such dynamic packaging, but through the help of traditional travel agencies. Others, such as Site59 and the Rail Europe Group's e-Vacations.com site, which includes EuroVacations.com and LatinAmericaVacations.com, already have unique technology that automates dynamic packaging.

To capture those consumers who go online to put together their vacations, vacation packagers



must have Web sites with such dynamic packaging capabilities – or booking systems able to handle dynamic packaging in partnership with an online travel agency. They must also market themselves heavily to introduce themselves to consumers who probably have little idea of what a vacation packager does. The industry still suffers from the “If It’s Tuesday, This Must Be Belgium” stereotype of tightly scheduled tours with 30 people wearing name tags traveling through Europe on a fancy bus. They need to show the value they offer consumers – the lower prices and customer service throughout the trip.

Educating consumers requires a massive marketing push, more than the roughly \$200,000 that trade groups such as the U.S. Tour Operators Association spend annually on public relations and more than what vacation packagers themselves spend. Few release their marketing numbers, but one vacation packager carrying a half million travelers a year spends a little more than \$10 million a year on marketing – compare that to the \$100 million annual sales and marketing budgets of each Expedia and Travelocity.

At the same time, suppliers are beginning to move into the vacation packaging space. In the U.S. to date, this movement has mainly been confined to airlines having companies such as Mark Travel and Certified Vacations private label their products. Three airlines own vacation packaging subsidiaries – American Airlines (AA Vacations), Northwest (MLT Vacations) and America West Holdings (The Leisure Company) – but that is the exception rather than the rule. U.S. vacation packagers need only look overseas for a glimpse of the future. In Europe, Asia and the Pacific Rim, air consolidators and giant hotel companies are looking at vacation packaging systems, simply because adding a vacation product gives them an opportunity to fatten their slim margins.

Finally, vacation packagers have to automate two crucial areas: procurement and distribution. Their aspiration is to access inventory online from the car rental company, the resort, the airline and so on, assemble it dynamically and then sell it online. But the reality is that most vacation packagers still use fax and e-mail to work with suppliers and the telephone call center for distri-

bution. Change is slow in coming, but the trend toward electronic procurement and distribution is undeniable. PhoCusWright estimates that 15% of travel agency bookings of vacation packager products are now electronic – mostly through the GDS but also through Web sites.

This trend is heartening, but U.S. suppliers have a long way to go and major problems to correct. In countries such as Canada, 80-90% of vacation packages are booked electronically. This is not because Canada is a smaller market, it is because the U.S. vacation packaging industry is highly fragmented. There is no industry standard when it comes to electronic distribution. That also means U.S. vacation packagers have much higher distribution costs that can be anywhere from two to five times higher than their counterparts in other markets. As yet, no technology provider has a complete solution, although many aspire to.

The Increasing Role Of GDSs

The GDSs are working hard to make it easier for vacation packagers to link to their products in a variety of ways. Vacation packagers themselves are also becoming more sophisticated technologically. Their I.T. staffs have learned many valuable lessons from building Web sites, and these are helping them link to the GDSs more easily and sometimes less expensively than in the past. Total fees, including technology and implementation costs for connecting to the GDS, can be upward of \$1 million, although costs vary depending on the vacation packager, its product and systems, and the GDS.

Yet, each GDS remains a different system – a vacation packager can’t necessarily show all of its wares in the same way in each GDS. And, for the most part, the GDSs remain character-based, alphanumeric green screen products, although they are trying to shift their travel agency users to browser-based products. Sabre, for example, has more than 70 North American vacation packagers and eight cruise lines (it must recently added Disney Cruise Line). All the GDSs are building what could be considered parallel systems that are Web-based, with the eventual goal of weaning their customers off the mainframes and onto the Web. For all their limitations, the GDSs are



still a less expensive way to sell compared to the telephone – a GDS booking could cost a vacation packager \$10, but that is much better than the \$30, \$40 or \$50 a telephone booking can cost.

Meanwhile, companies that specialize in helping vacation packagers automate, such as Logibro, Datalex, SCS Solars and Atinera, are working on or have developed platforms that allow vacation packagers to distribute through online agencies. This link is essential to the vacation packagers' survival. Most consumers want to comparison shop, and that can only be done in a marketplace. For that reason, the bulk of vacation packages has always been sold through travel agencies; that's why even vacation packagers that had previously resisted GDSs in favor of the Web are now in GDSs as well. Two recent converts: Apple Vacations and Pleasant Holidays.

For the moment, the travel agency channel remains by far the largest source of bookings for vacation packagers. Any traditional travel agency that is going to survive and prosper – and PhoCusWright believes that the agency channel will survive and even thrive, albeit in smaller numbers than today – must book complex travel and automate those bookings to be profitable. These are agencies, of course, that are using technology to work smarter, agencies that have their own online sites on which their clients can research and even book travel. Typically, these are agencies that have allied themselves with a larger agency entity – a franchise or consortium – that uses the pooled resources and selling clout of its members to build Web sites that are effective marketing and sales vehicles and to develop profitable relationships with suppliers.

Agencies have good reason to embrace electronic channels. They can do such bookings more efficiently, giving them more time to sell. Most packagers also add a bonus commission to other commissions they pay to agencies that book their products electronically. GDSs are also making deals with destination event/tour aggregators such as Viator, as well as services for booking golf tee-times, restaurant reservations, theater tickets and so on, giving agencies electronic tools for delivering these to their customers.

The Web is rich with information for consumers, but researching, planning and booking travel takes time – and this is a time-starved society. Agencies that can provide this service will definitely survive and prosper, but the GDSs and vacation packagers have to be sure to give agencies a product to sell that a much more knowledgeable and demanding traveling public will purchase. And that product has to be dynamically booked, with a lot of the detailed extras needed to create a unique experience for the traveler.

Vacation packagers have long relied on intermediaries; it is only logical that an industry that relied on the old intermediaries should turn to the new ones to sell its products and grow sales – and use its growing technological expertise to work with its traditional agency distribution channel to sell more effectively.

Vacation Packager Strategies

As they learn to embrace online distribution, vacation packagers have adopted the following strategies:

1. Using the Web to attract new customers

Vacation packagers with booking capabilities on their Web sites are growing the size of the vacation package market pie. Certified Vacations has been selling directly to consumers online in one form or another for more than five years. These sales are growing – but Certified claims it is not poaching travel agency customers with these direct sales. Certified believes that travel agencies provide consumers with the service and value some consumers want. But using the Web to sell directly to consumers has attracted the do-it-yourselfers who eschewed agencies in the past. Until the advent of the Internet, Certified had few direct sales. Direct sales account for roughly a quarter to a third of Certified's business and of those sales, just under half are online bookings.

MLT Vacations, a subsidiary of Northwest Airlines Corp., gets 35% of its consumer direct bookings from the Web. The other 65% of its consumer direct bookings are over the tele-



phone. The company still sells 90% of its product through travel agencies. MLT's number one objective with its Web site, according to John Temple, president and COO, is to "sell our product and expand its distribution into areas that you couldn't play in without Internet capability."

Pleasant Holidays, owned by AAA Southern California, has found its Web site leads to more telephone calls – and subsequent sales – to its call center. It has a dedicated 800 number on its Web site, and for every booking it gets on the Web site, it gets two-and-a-half offline bookings at its call center. The Web is clearly producing new and incremental business for Pleasant.

Some vacation packagers had hoped that the Web would at least ease the demand and sizeable cost of producing brochures – but it has not. Travel agencies and consumers instead use the Web to order print brochures, even when the same information is on the Web site. "We were so naive about saving on printing costs," said Gary Murphy, president of Brendan Tours.

The Web is an excellent way to market niche products such as hard adventure tours, but few of these products are actually sold completely online. The hard-core adventure travel audience is an attractive demographic, and relatively young for a vacation package audience (professionals between 35 and 50 with very high incomes and in tremendous physical shape.) Customers don't buy these products online, but they do their travel research online, making the Web an excellent vehicle for companies seeking to diversify their product and attract new types of customers to vacation packages. And since these products normally have higher margins than mainstream products (Disney, Vegas, etc.), there is less of a need to significantly lower the cost of distribution.

2. Partnering with suppliers, agencies

Vacation packagers are becoming more creative in their online partnerships. Some are obvious – continuing the industry's use of intermediaries by partnering with online travel agencies, as GOGO WorldWide Vacations is doing

with Travelocity. But vacation packagers are trying other partnerships as well. Certified Vacations launched an affiliates program through LinkShare, an online affiliate marketing company. Its partners include everyone from major sites such as Disney.com to smaller, mom-and-pop type-sites. All of these sites represent new channels for Certified to sell its products.

Pleasant Holidays offers travel agencies use of its co-branded booking engine to help Pleasant introduce itself to new audiences. As Pleasant upgrades its e-commerce platform, it is looking for new, more seamless partnerships with other entities, including online agencies. This is all part of its strategy of syndicating its product in order to exploit new distribution channels. Meanwhile, GOGO has an affinity booking engine that online agencies can use to allow consumers to book GOGO – or at least initiate the process – on their own Web site.

3. Adding the necessary value

Vacation packagers recognize they can't just sell another company's product; they have to put something together of unique value for consumers. One vacation packager said that was one reason for the demise of Kingdom Vacations, whose main product was Disney. "Who needed Kingdom when Disney was the brand? They (consumers) just went direct," he said.

Consumers are enthusiastic about packages that allow them to create their own trips.

But many vacation packagers still provide this service over the telephone, not online. This is clearly a process that should become automated in order to make it a cost-efficient vehicle to add value and attract customers.

Today's consumers are far more knowledgeable than their parents were and they want to be in control. That means working with suppliers and destinations to create products that fit the desires of today's travelers – and to offer the consumer the choice of assembling the components according to their desire as well.



4. Embracing technology to build a common platform

Large companies such as The Mark Travel Group, Certified Vacations, Far and Wide, The Travel Corporation, Apple Vacations and others are building or are in the process of building common platforms on which all their products can be located. This is particularly important since so many vacation packagers today are actually the composite of multiple companies on different systems. The importance of putting myriad companies on the same platform is obvious. It brings efficiencies and eliminates redundancies across the board in procurement – negotiating, purchasing and keeping track of the multiple components from various suppliers (air, hotel, car, restaurant, sightseeing tours, attractions, etc.) that make up a vacation package – as well as inventory management and distribution. A single platform does the same with accounting and customer relationship management.

North American Leisure Group is an example of a single platform initiative. The company (owned by the UK travel mega Airtours PLC, which also owns U.S. cruise retailer, mytravelco.com) has put some of the four U.S. and Canadian vacation packaging companies it owns (Alba Tours, Sunquest Holidays, Sun Trips and Vacation Express) on the same technology platform. This means these companies have a centralized purchasing system for buying hotel rooms, air, and other components, giving them more purchasing clout with suppliers big and small.

GOGO has found its Web site (it has no consumer Web site, only a travel agency Web site and affiliate programs) is approaching the booking volume of some of its newer GDS partners. Any channel that saves vacation packagers money is encouraged.

Vacation packagers want to build more efficiency into their process because prices consumers are paying for their products are actually lower than they were a decade ago. An MLT Cancun package from Minneapolis cost \$68 less in 2001 than it did in 1990 – and that's before adjusting for inflation, which would make

the difference even greater. Operating costs – salaries, utilities, rent, etc. – have continued to increase, which means vacation packagers must lower the costs of procurement, transactions and distribution.

Smaller companies lack the resources to build their own systems but are beginning to partner with their larger brethren to gain some benefits. Case in point: Mayflower Tours, which is now participating in Trisept Solutions' VAX VacationAccess Web site, where travel agencies can book multiple suppliers at a single Web site. Mayflower has also hired Trisept Solutions to help it connect to GDSs, which it hopes to do within a year. Trisept Solutions is an independent company made up of what had been three companies, including the Mark Travel technology department. Mayflower is an expert in the escorted tour business, and is sharing that expertise with Trisept.

Some attempts to put multiple companies on the same platform to gain efficiency and grow bigger have failed miserably. These include Global Vacation Group and Kingdom Vacations. The former Global Vacation Group, now Classic Custom Vacations, is bruised but alive. Losing money and yet to revamp its technology, the company became ripe for an acquisition (Expedia acquired the company in February for \$48 million, plus the assumption of \$30 billion in liabilities). More frightening is the demise last spring of long-time vacation packager Kingdom Vacations. Technology was part of the strategy of its parent company Vista, and played a role in its downfall (although, as already mentioned, other factors came into play as well). Now, Travelocity uses the call center space in Pennsylvania that Kingdom once used.

5. Improving dynamic reporting

Vacation packagers, such as Apple Vacations, see gold in data mining. Within the year, all four of the companies that make up Apple – Apple East, Apple West, Sunbird and Express Holidays – should be on the same platform. That means it can start tracking across all four companies which products and destinations are selling and who is selling them and perhaps move to



more dynamic pricing. Other vacation packagers hope to build customer profiles for one-to-one marketing, thus making knowledge of a passenger's habits and preferences part of the company's institutional memory through data warehousing. Such techniques are not limited to consumers. Some vacation packagers also see their Web sites as a tool in which travel agencies can track their sales and be motivated to achieve higher sales levels – and higher overrides. While most CRM efforts are well-intentioned, few are successfully up and running today due to their cost and complexity.

6. Resisting last-minute pricing

Vacation packagers don't like last minute pricing, but it has become inevitable.

Traditionally, most packaged travel would be ordered about 60 days or more out from departure. That has changed; Internet discounts are encouraging people to book a lot closer in, particularly for shorter trips. Now, many vacation packagers are booked between 45 and 15 days out. As MLT's John Temple said, last-minute promotions mean vacation packagers are "spending more money to generate less of a return – the worst of both worlds." To counter this trend, vacation packagers are resisting lowering prices on products that don't have an imminent departure date. In addition, vacation packagers are trying to price aggressively the first time out with a product in order to avoid encouraging consumers to book later for the lower price.

Packagers do use the Internet to promote specific or distressed products. The Leisure Company, which packages America West Vacations, e-mails weekly notices and specials to promote various products – but these are not necessarily last-minute promotions. Instead, the e-mails highlight specific pricing changes rather than last-minute pricing. Specials may easily be for departures that are some months distant.

7. Lowering the average age of their customers

Vacation packagers, which have traditionally sold to the 50 and over crowd, are trying to lower the age of the average customer by

attracting the next generation. Collette Vacations is expanding its Collette Discover packages, independent travel packages aimed at those 35 and older. It is also adding more exotic, adventure oriented tours. Both are designed to help Collette "nip away" at new audiences.

Vacation packagers are also expanding their customer base by diversifying their product offerings.

DER Tours, which was recently acquired by The Rail Europe Group, is one company that has done this well. The company gets a large number of student travelers purchasing rail passes and airline tickets. It offers more active vacations, such as ski packages, escorted and independent tours. The result is a highly varied customer mix that ranges from a substantial number of young travelers just beginning their relationship with DER to older, more affluent travelers as well.

8. Capitalizing on the Web's interactive capabilities

Vacation packagers can use the Web to build on relationships with their customers – many who are loyal and devoted.

Contiki is using its Web site to build community among those travelers who have met on its motorcoach tours. Often, these young, fellow travelers keep in touch long after the trip is over. Contiki facilitates that interaction with chat rooms and similar functions on its Web site. These previous travelers can also answer questions from potential new customers. In doing this, Contiki has developed a tool that should help it build its repeat business and attract new customers as well.

9. Using incentives to encourage travel agents to migrate from the phone

With every additional percent commission needed, travel agencies are being lured to book online, even if they prefer the telephone. Vacation packagers such as Mark Travel, MLT Vacations and others pay travel agents bonus commissions every time they make a booking on a GDS, vacation package Web site or proprietary electronic booking system. Companies such as Pleasant Holidays, which is now on Sabre and Galileo, plan to encourage



agencies to use these electronic channels through promotions and training. They recognize both the difficulty and importance of weaning agencies from the trusty telephone.

10. Offering travel agency booking capabilities on their Web sites

It's imperative for vacation packagers to offer travel agency bookings on their Web sites to gain efficiencies (though still not all do).

Most tour operators still take most of their travel agency reservations over the phone lines but are seeing their travel agency Web bookings grow – even though its system is currently e-mail only and does not include a live booking engine. GOGO has reported success with its travel agency Web site. Its agents can use the Web site to book most of its products and the Web site is generating as many bookings as are some of GOGO's newer GDS partners. In most cases, however, it is still a challenge to get travel agencies to use these Web-based systems.

11. Automating the booking process every way possible

Globus and Cosmos, which sells 100% of its product through travel agencies, gives them three different ways to book without talking to a Globus and Cosmos sales agent. The company gives travel agencies the option of booking its product over any one of the four GDSs, over the Web or using an automated telephone booking service called QuickCall, on which agents can book virtually any Globus product.

Size Of The Market

It is difficult to size the North American vacation market – many companies are privately held and do not reveal their sales figures, or are divisions of larger companies. Based on interviews with vacation package executives and calculations based on average trip price, PhoCusWright estimates the North American vacation packager market to be roughly \$17 billion in 2001.

Table 2

Table 2 – Consumer Vacation Sales By Channel, 2001 & 2004

(US\$B)	2001	2004	Gain
Total vacation market size	17.0	22.0	29%
Total vacation sales - travel agency	15.0	18.0	20%
Total vacation sales - direct	2.0	4.0	100%
Travel agency sales	87%	80%	-7
Offline (telephone, fax)	86%	73%	-13
Online (Web site)	1%	7%	+6
Direct sales	13%	20%	+7
Offline (telephone, fax)	12%	16%	+4
Online (Web site)	1%	4%	+3
Total Consumer Vacation Sales	100%	100%	=

Source: PhoCusWright Inc.



Table 2 shows distribution shifts in vacation package sales expected for the 2001-2004 period. The figures are based on the following assumptions:

CONSUMER DISTRIBUTION CHANNELS

STATE OF THE MARKET: 2001

- **Vacation package sales will total \$17 billion in 2001.** Many vacation packagers had flat year-over-year growth and declining profits, as weakened economic conditions in the U.S. forced most suppliers to lower prices dramatically. The Sept. 11 attacks hurt all travel; vacation packagers were less immediately impacted than others in that the fall is normally their off season.
- **In 2001, travel agencies booked 87% of all vacation package sales.** And nearly all (86%) was booked over the telephone.
- **Only 1% of vacation package sales, or \$170 million, was booked by travel agencies online (see Table 3).** [Note: this figure includes sales generated from the Internet but actually closed offline using the telephone number posted on the Web site. For some sites, this figure could be close to half of all vacation package sales.]
- **In 2001, only 13%, or \$2.2 billion, of vacation package sales were sold direct to consumers.** Of that 13%, 12% was sold via telephone and fax and 1%, or \$170 million, was purchased on vacation packager Web sites. Most tour operators do not even offer consumer bookings on their sites. A survey of 40 brands on Table 1 found that only half offered real-time reservation capabilities for consumers.

EXPECTED DISTRIBUTION SHIFTS: 2004

- **The total vacation package market will grow 29% from \$17 billion in 2001 to \$22 billion in 2004.** Vacation packagers, like other travel categories, are still suffering the effects of the economic downturn in the U.S. and lingering security fears. Nonetheless,

growth will pick up to high single digits in 2003 and 2004.

- **Travel agency vacation sales will increase 20% to \$18 billion in 2004.** Although it will decline as a slice of the pie, the travel agency channel will still represent 80% of all vacation package sales in 2004. The Internet will be the sole source of growth for travel agency vacation sales.
- **"Travel agency – offline" sales will represent the vast majority (73%) of all vacation package sales.** Even though the percentage of sales sold offline will fall dramatically from 2001 levels, the telephone will still be the number-one method for consumer vacation package purchases.
- **"Travel agency – online" sales will represent 7%, or \$1.5 billion, of all vacation package sales in 2004.** As more consumers get comfortable booking complex travel online, many will also learn to book their vacations completely online, especially deals and last-minute trips.
- **Consumer-direct sales will represent 20% of total vacation package sales, compared to 13% in the 2001.** More consumers using vacation packager Web sites will lead to gains in consumer-direct sales overall. The percentage of customers that call reservation offices directly will grow to roughly 16% of total sales. The online (Web site) channel will grow to 4% of all vacation package sales by 2004, or \$880 million.

Online Vacation Package Sales

Tables 3 and 4 show U.S. online vacation package sales for 2001 and projections for 2002-2004 [note: these figures include sales that are researched online but purchased via the Web site's toll-free number]. While the market is tiny (under \$1 billion) today, it should grow rapidly to reach \$2.4 billion in 2004. At that time, 65% (\$1.5 billion) will be sold through online travel agencies and 35% (\$880 million) will be sold on vacation packager Web sites.



Table 3

Table 3 – U.S. Online Vacation Package Sales, 2001 And Projected 2002-2004, By Channel

(US\$M)

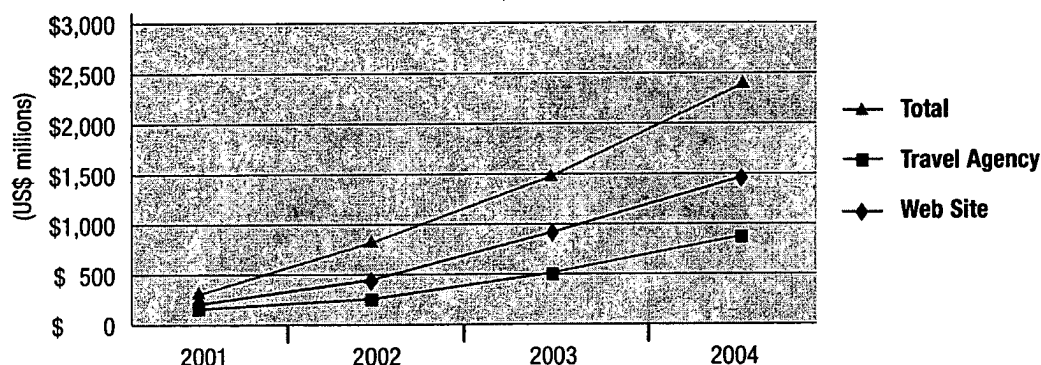
	2001	2002	2003	2004	Change 2001-2004
Travel Agency	\$170	\$475	\$930	\$1,540	806%
Web Site	170	300	550	880	418%
Total	\$340	\$775	\$1,480	\$2,420	612%

Note: includes sales that are researched online, but purchased via the Web site's toll-free number

Source: PhoCusWright Inc.

Table 4

Table 4 – U.S. Online Vacation Package Sales, 2001 And Projected 2002-2004, By Channel



The Role Of Travel Agencies

There is no doubt that online agencies will make the greatest impact on vacation packager distribution shifts in the 2001-2004 period (see Table 4). Most of them report strong growth in vacation bookings, although that segment is still a small component of total online travel sales.

Among these Web sites that market and sell vacations online, vacation package sales range from \$10 million to close to \$100 million. However, as

mentioned previously, about half of those sales may be initiated online but consummated offline.

The largest sellers of vacations online are Expedia, Travelocity and Site59 (recently acquired by Travelocity for \$43 million). Priceline plans to enter the fray in spring 2002 with the introduction of dynamic packaging – travelers choose the hotel and air separately to create their own vacations.



Table 5

Table 5 – Leading Online Travel Retailers And Their Investors

Vacation Site	Parent Company
e-Vacations.com (EuroVacations.com and LatinAmericaVacations.com)	Rail Europe Group, Avanti Destinations, Accor Group
Expedia	USA Interactive
Mytravelco.com (Travel Services Int.)	Airtours PLC
National Leisure Group	Softbank Capital Partners and General Catalyst, USA Networks (minor investment)
OneTravel.com/11th Hour Vacations	Amadeus/Terra Lycos
Site59	Travelocity.com
Travelocity	Sabre (70%)
Uniglobe.com	Public, Uniglobe Travel Int.

Source: PhoCusWright Inc.

TRAVEL AGENCY DISTRIBUTION CHANNEL

State Of The Market: 2001

Travel agencies represent 87% of all vacation package line sales. Travel agency vacation sales were \$15 billion in 2001.

Travel agencies still use phone and fax to make vacation reservations for their customers. By year-end 2001, as much as 86% of bookings were still made by telephoning or faxing the reservation to the vacation packager reservation office.

Only 13% of all travel agency bookings were made through the GDS in 2001. That figure includes GDS Web sites and hybrid (legacy/Web site) systems. An additional 2% of travel agency sales were booked through travel agency Web sites, the travel agency section of a tour operator's site, or other B2B networks, such as Trisep Solutions' VAX Vacation Access, a Web-based, agent-only booking system.

Table 6

Table 6 – Travel Agency B2B Vacation Package Sales By Channel, 2001 & 2004

(US\$B)	2001	2004	Gain
Total vacation package market size	17.0	22.0	29%
Total vacation package sales – direct	2.0	4.0	100%
Total vacation package sales – travel agency	15.0	18.0	20%
Electronic	15%	45%	+30
GDS (incl. GDS Web sites, hybrid)	13%	28%	+15
Web sites (agency, vacation packager, other B2B)	2%	17%	+15
Phone/Fax	85%	55%	-30
Total	100%	100%	



EXPECTED DISTRIBUTION SHIFTS: 2004

Travel agency vacation sales will increase slightly in the 2001-2004 period. Travel agency vacation sales will total \$18 billion.

The GDS will play an increasingly important role in vacation package distribution. By 2004, GDSs will grow to represent 28% of all travel agency sales.

Significantly more travel agencies will purchase product on the Web. About 17% of travel agency sales will then be made on the Web – these include sales made on travel agency sites, vacation packager sites or other B2B services such as VAX. By 2004, all vacation packagers are expected to offer travel agency bookings on their sites, facilitating this shift.

Phone/fax will still be the dominant distribution channel. Travel agencies' lessened dependence on phone/fax will be slow but steady, as 55% of vacation sales will still be called or faxed into reservation offices by 2004.

By Kate Rice and Lorraine Sileo

